SBCTC Strategies for Managing Bid Alternates and Savings on Major Capital Projects

General Administration
Engineering and Architectural Services
2010 Fall Client Workshop

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Legislative History

Since 1985, the instructions to OFM related to the transfer of excess funds between projects, what are excess funds, the legislative intent for projects, and the allowable uses of excess funds have remained essentially unchanged.

In the 2010 Supplemental session, the legislature stopped the transfer of funds between projects, restricted the movement of funds between project cost categories, and only allowed the funding of bid alternates if they have an operational budget savings.

The Governor vetoed the legislative changes and directed OFM to scrutinize spending plans for the purpose of identifying savings that could be used for new projects in 2011-13.

What are “bid savings”?

The Legislative reductions in the 2010 Supplemental to account for bid savings were based on holding the Consultant Services, Art, Furniture/Equipment, Project Management, and Other Costs constant while recalculating the construction costs based on the bid results.

The constants were generally based on the cost estimate associated with the request.

The revised construction cost was the sum of the bid, 10% construction contingency, and the local sales tax rate.

The Post-bid Project Total was subtracted from the total funding previously appropriated to get the Bid Savings.

Example from Peninsula College:

3,822,496	Consultant Services
20,380,000	Low Bid
1,711,920	Tax on Bid at 8.4%
2,038,000	Construction Contingency at 10% of Bid
171,192	Tax on Construction Contingency at 8.4%
116,000	Art
3,131,000	Furn/Equip
200,000	Project Management
374,000	Other
31,944,608	Post-bid Project Total
35,927,000	Prior Appropriations
3,982,392	Savings
31,944,608	Total Appropriation after 2010 Supplemental

Current Uses of Bid Alternates

GA says A/Es can use up to six additive alternates and all of them must be within the project MACC. The use of a deductive alternate requires written permission from the GA E&AS Project Manager.

OFM allotment instructions say the base bid should reflect a complete and functional project. Additive bid alternates should improve the durability or serviceability of the project.

Affirm the Base Bid is a Complete and Functional Project as a Strategy to Identify Project Savings

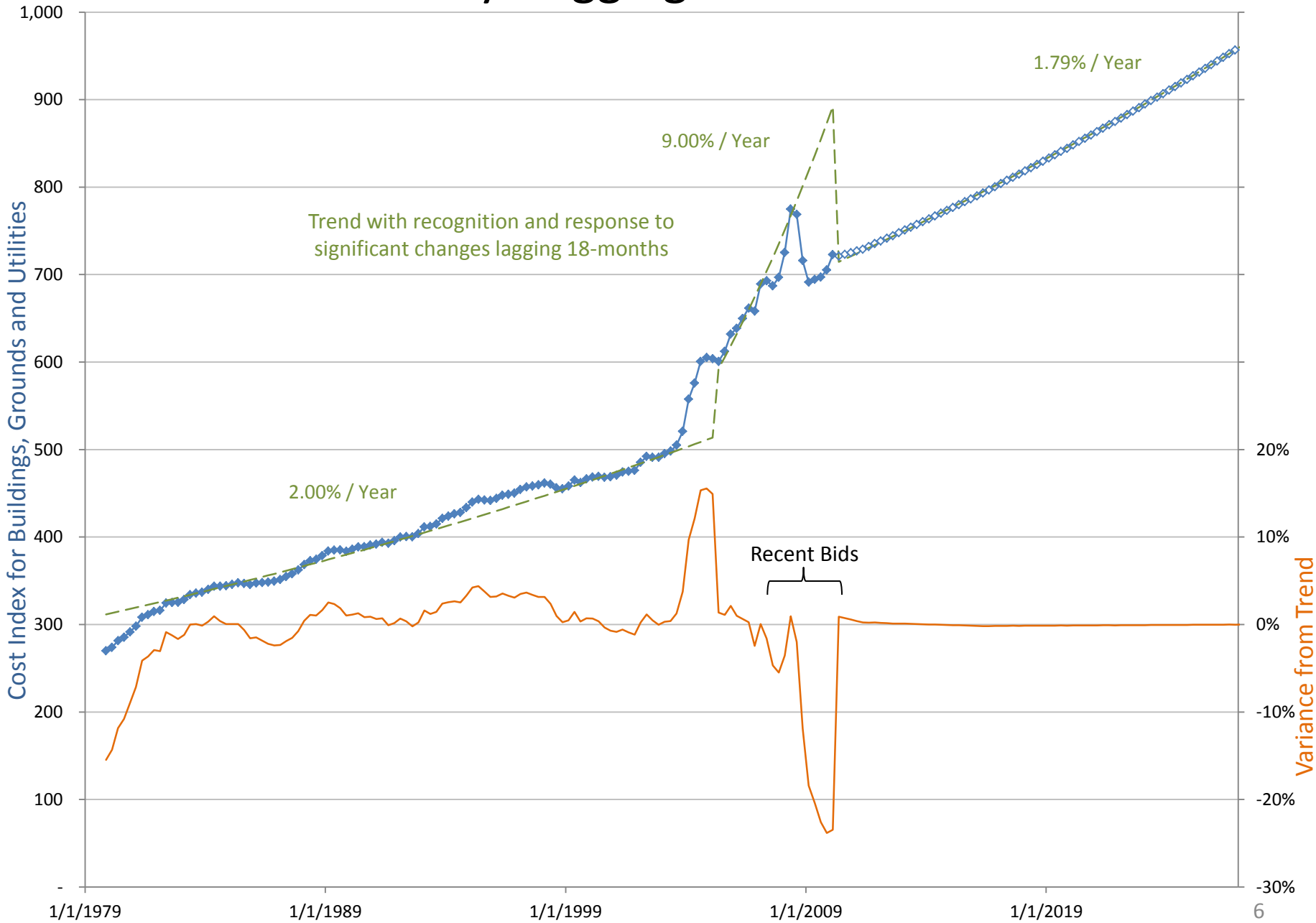
Use Bid Alternates for Unknown Market Conditions

When a project comes in over budget the use of deductive alternates can help avoid the need to re-bid the project.

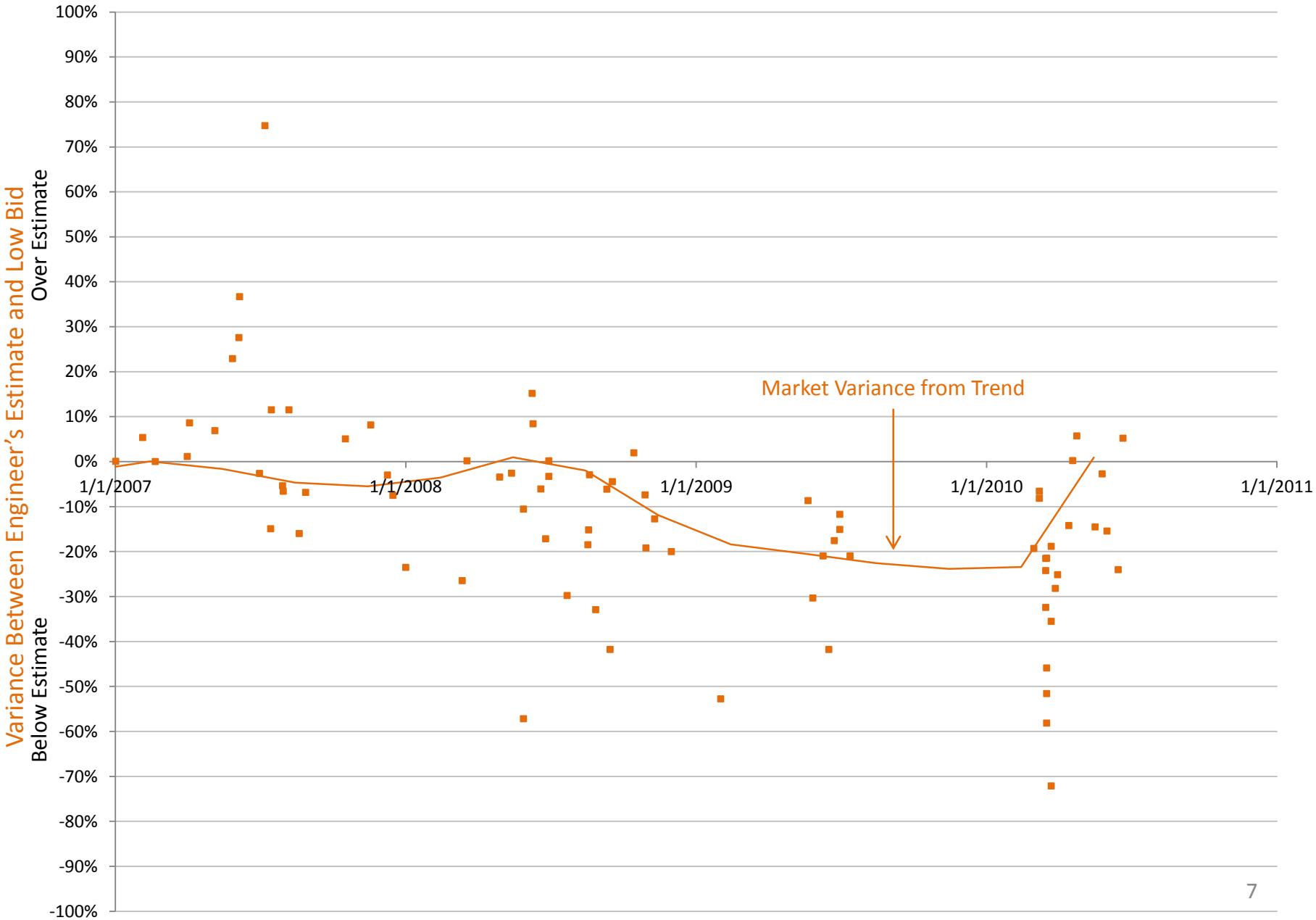
When bids come in under budget additive alternates can be used to improve the durability or serviceability of the project.

It is imperative we avoid even the appearance of using alternates to select one contractor over another.

We are always lagging behind the Market



Recent SBCTC Bid Variances



Guidelines for the Use of Bid Alternates

Changes to GA Policy

- Additive alternates do NOT have to be within the MACC to be bid.

Consistent with Current GA Policy

- Use bid alternates for up to 10% of the base bid to allow for unknown market conditions.
- Generally list alternates on the bid form in the order they will be taken and consult with GA when selecting alternates.
- Consider alternates for energy efficiency features above code, LEED elements above Silver, more durable finishes, more instructional flexibility, and cost trade-offs between proprietary systems.
- Estimate the number of years it will take until the cumulative operating cost savings equals the direct cost of each alternate that affects energy consumption or the life of construction materials, prior to bid.

Discussion Point: Do the proposed guidelines for the use of bid alternates provide the right balance of flexibility and accountability?

Shifting Expenses between Project Categories

OFM says allotment requests are to provide a clear picture of how the budget will be implemented. Funding is allotted in the following phases:

Predesign
Design [1]
Construction [2]
Equipment

[1] May include acquisition, consultant, project management, artwork and related costs.
[2] May include equipment in addition to any of the items in [1].

Allotting funds in phases is designed to help keep projects within the limits and intent of the appropriation. An updated project budget is to be submitted with each allotment request.

The management reserve rate is applied to the costs in the construction category and can be used for variances in key assumption in building efficiency, escalation, sales tax, permit requirements, delays and off-site development.

Contingency and management reserve funds can only be used on unforeseen contingencies and not for extra work or additives.

Minimize the Shifting of Expenses between Project Categories as a Strategy to Preserve Bid Savings

Principle – Maintain Flexible use of Contingencies

Considering all project contingency and management reserve are generated in the Consultant and Construction categories we must maintain flexibility to transfer these funds to other categories.

Discussion Point: Do the following guidelines for intra-project uses of funding provide the right balance of flexibility and accountability?

Guidelines for Intra-project Uses of Funding

	Acquisition	**Consultant**	*Design Contingency*	**Construction**	*Management Reserve*	*Construction Contingency*	**Equipment**	**Artwork**	**Other Costs**	**Project Management**
Acquisition		N	Y	1	Y	Y	1	N	1	N
Consultant			Y	Y	Y	Y	1	N	1	1
Design Contingency				Y	Y	Y	Y	N	Y	Y
Construction					Y	Y	1	N	1	1
Management Reserve						Y	Y	N	Y	Y
Construction Contingency							Y	N	Y	Y
Equipment								N	1	N
Artwork									N	N
Other Costs										1
Project Management										

Key:

Y Funding may be transferred between these categories.

N Funding may not be transferred between these categories.

1 If scope is moved between these categories, then the funding may also be moved.

Upon receipt of a claim or change order request that can not be resolved using these guidelines, the college will consult with GA and SBCTC to find a solution that would allow completing the project within available funds.

Current Uses of Bid Savings

Excess appropriations are to be identified only after the project is substantially complete or after bidding if there is substantial certainty that the project will be completed within the biennium for less than the appropriation.

Excess appropriations cannot be used to expand a project beyond that intended by the legislature.

The intent is that each project be defined as proposed to the legislature in the governor's budget document, unless it clearly appears from the legislative history that the legislature intended to define the scope of a project in a different way.

The legislature has created an Infrastructure Savings project to receive excess funds from other projects. The funding in this project can then be used to correct infrastructure deficiencies or conditions that:

(a) Adversely affect the ability to utilize the infrastructure for its current programmatic use;
(b) reduce the life expectancy of the infrastructure; or
(c) increase the operating costs of the infrastructure for its current programmatic use.

OFM may also transfer excess appropriation authority to a project for which the appropriation is insufficient.

Use the Infrastructure Savings Project as a Strategy to Use Bid Savings

Use the Infrastructure Savings Project for Minor Work

Since 1995, the legislature has provided an Infrastructure Savings project to receive remaining funds from other projects that can then be used for preservation work.

Many more repairs are identified in our facility condition survey than we can afford to address each biennium.

Using bid savings to address these needs is consistent with current law.

Guidelines for the Use of Bid Savings

- Leave potential Bid Savings un-allotted during the project.
- After substantial completion, request the transfer of actual Bid Savings to the Infrastructure Savings project account.
- 50% of the savings will be available to the college where it is generated for their Repairs and the balance will be divided among the other colleges in the same proportion as their Repairs were funded.
- Each college will provide a list of projects to use their portion of the Bid Savings. Projects will be consistent with the SBCTC Capital Budget Request Instructions for Repair projects, except there will be no lower cost limit.

Note: Transfers must be submitted to OFM for approval. OFM and the legislature must be notified of changes to the Repair list .

Discussion Point: Is keeping 50% of the savings for Repairs an appropriate incentive for the college?

Example Distribution

of $3,982,292 Bid Savings from Peninsula

This is what the distribution could have looked like using the proposed guidelines if the appropriation had not been reduced by the bid savings amount in the 2010 Supplemental.

College	Repairs originally funded in 2009-11	Bid Savings Distribution	Total 2009-11 Repair Funding
Peninsula College	$ 803,000	$ 1,991,196	$ 2,794,196
Grays Harbor College	$ 1,068,000	$ 72,836	$ 1,140,836
Olympic College	$ 710,000	$ 48,421	$ 758,421
Skagit Valley College	$ 508,000	$ 34,645	$ 542,645
Everett Community College	$ 895,000	$ 61,038	$ 956,038
Seattle Central Community College	$ 1,806,000	$ 123,167	$ 1,929,167
North Seattle Community College	$ 709,000	$ 48,353	$ 757,353
South Seattle Community College	$ 1,242,000	$ 84,703	$ 1,326,703
Seattle Vocational Institute (with SCCC)	$ 267,000	$ 18,209	$ 285,209
Shoreline Community college	$ 1,806,000	$ 123,167	$ 1,929,167
Bellevue College	$ 677,000	$ 46,170	$ 723,170
CIS (with SBCTC 890)	$ 218,000	$ 14,867	$ 232,867
Highline Community College	$ 1,806,000	$ 123,167	$ 1,929,167
Green River Community College	$ 608,000	$ 41,465	$ 649,465
Pierce College Fort Steilacoom	$ 965,000	$ 65,812	$ 1,030,812
Pierce College Puyallup	$ 124,000	$ 8,457	$ 132,457
Centralia College	$ 325,000	$ 22,165	$ 347,165
Lower Columbia College	$ 357,000	$ 24,347	$ 381,347
Clark College	$ 953,000	$ 64,993	$ 1,017,993
Wenatchee Valley College	$ 572,000	$ 39,010	$ 611,010
Yakima Valley Community College	$ 705,000	$ 48,080	$ 753,080
Spokane Community College	$ 1,023,000	$ 69,767	$ 1,092,767
Spokane Falls Community College	$ 1,174,000	$ 80,065	$ 1,254,065
Big Bend Community College	$ 780,000	$ 53,195	$ 833,195
Columbia Basin College	$ 1,002,000	$ 68,335	$ 1,070,335
Walla walla Community College	$ 1,234,000	$ 84,157	$ 1,318,157
Whatcom Community College	$ 579,000	$ 39,487	$ 618,487
Tacoma Community College	$ 1,074,000	$ 73,245	$ 1,147,245
Edmonds Community College	$ 853,000	$ 58,173	$ 911,173
South Puget Sound Community College	$ 1,060,000	$ 72,291	$ 1,132,291
Bellingham Techncial College	$ 83,000	$ 5,660	$ 88,660
Lake Washington Technical College	$ 896,000	$ 61,106	$ 957,106
Renton Technical College	$ 1,114,000	$ 75,973	$ 1,189,973
LH Bates Technical College	$ 1,149,000	$ 78,360	$ 1,227,360
Clover Park Technical College	$ 708,000	$ 48,285	$ 756,285
Cascadia Community College	$ 147,000	$ 10,025	$ 157,025
	$ 30,000,000	$ 3,982,392	$ 33,982,392

Schedule to Refine Guidelines and Develop Policy

May 27th 2010	Draft to WACTC Capital Committee
Jun – July 2010	Feedback from WACTC, BAC, and Facility Contacts
July 28th 2010	Revised draft to WACTC Capital Committee
August 19th 2010	Feedback from BAC
October 7th 2010	Updated Draft to WACTC Capital
November 4th 2010	Discuss with GA Project Managers and Clients
December 2010	WACTC Adopt Policy

References

Instructions for Architects and Engineers, July 2001, GA
http://www.ga.wa.gov/EAS/EA-References/InstructionAE.pdf

2009-11 Operating and Capital Allotment Instructions, May 2009, OFM
http://www.ofm.wa.gov/budget/instructions/allotment/2009-11allotment.pdf

Predesign Manual, October 2008, OFM
http://www.ofm.wa.gov/budget/instructions/predesign/completedoc.pdf

Capital Budget Instructions 2011-21, June 2010, OFM
http://www.ofm.wa.gov/budget/instructions/capinst/11-21capinstr/11-21capinstr.pdf

2011-13 Instructions for Preparing Capital Budget Requests, SBCTC
http://www.sbctc.ctc.edu/college/finance/11_13capbudinstructions_000.doc

2009-11 Capital Budget
http://apps.leg.wa.gov/documents/billdocs/2009-10/Pdf/Bills/Session%20Law%202009/1216-S.SL.pdf

2010 Supplemental Capital Budget
http://leap.leg.wa.gov/leap/budget/lbns/2010cap2836-S.SL.pdf

Civil Works Construction Cost Index System
http://140.194.76.129/publications/eng-manuals/em1110-2-1304/entire.pdf

Establishing Sustainability and Efficiency Goals for State Operations
http://governor.wa.gov/execorders/eoarchive/eo_05-01.pdf

SBCTC Facility Assessments
http://www.sbctc.ctc.edu/college/_f-facilityassess.aspx